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ABSTRACT

The Texas Foundation School Program, popularly known as the Minimum Foundation Program (MFP), is a very complex approach to school finance. It provides basic assistance in three areas--minimum salaries, operating allowances, and transportation--and additional assistance in two others--vocational education and special education. The state pays roughly 80% of the MFP costs. On the whole, the Texas system favors smaller districts, especially those under 500 average daily attendance, even though district wealth is generally an inverse function of district size. The major sources of the inequities have to do with how enrichment monies for operating expenses are provided, how capital outlay monies are raised, and how foundation program current expense allotments are determined. The manner in which local fund assignment is calculated is also weak but it is not as large a problem as the other three. An equitable system must take into consideration district wealth, district family income, local school taxes, local municipal taxes, different common costs of education, the concentration of students with special needs, and different transportation needs.
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The Inequities of the Texas School Finance System (Especially considering Harris County)

by

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A BRIEF HISTORY OF TEXAS SCHOOL FINANCE

As early as 1854 Texas first provided for state aid to education. It was distributed to school districts in equal amounts per pupil.

The State's "first effort to equalize state aid in terms of local ability . . . came in 1915 with passage of the Rural Aid Law. This was an insignificant feature of school finance for some years, but by 1948 it had become a major element in state assistance." (22% of the major state education aid programs) Notice the "rural aid" designation for Equalization Aid. In fact, it was originally restricted to school districts under 1,500 scholastics.1/

However, in 1948 the original State education aid program was still the senior partner, providing 78% of the major state aid monies, and it was still allocated to school districts on a per pupil basis.

Inevitably this led to conflict between the smaller districts, which wanted more equalization aid, and the larger districts, which wanted more per pupil aid. The Gilmer-Aiken Minimum Foundation School Program was the resultant legislative compromise in 1949. This is still basically operative today, as is the older per pupil apportionment program.

THE PRESENT SCHOOL FINANCE APPROACH

The Texas Foundation School Program, popularly known as The Minimum Foundation Program (MFP), today is a very complex approach to school finance. It complements the original (1854) State aid program which is based on per pupil apportionments. But the MFP is much more important since the per pupil apportionments are subtracted from the amount of MFP State aid due to districts, and thus, according to the 1969 Research Report of the Governor's Committee on Public School Education, "have no effect on the net aid to most districts."2/*

* Although one of every thirteen districts in the State receives more state aid than they would be entitled to under the MFP because of the per pupil apportionment law's existence. These are called "budget balance" districts. Also, the Governor's Committee Report noted the following: ". . . with the prospect of a stabilized scholastic population in the next decade, the per capita apportionment might become a major unequalizing factor in state aid."3/ (See further discussion on p. 10)

The MFP provides three forms of basic assistance: for minimum salaries, operating allowances and transportation.

(1) A minimum staffing plan is prescribed for every district, including the categories of personnel who must be employed. Basically, one teacher is allowed for every 25 students. This combination is called a "classroom teacher unit". Districts smaller than 500 ADA need fewer students per classroom unit to get Foundation Program support for one teacher. The numbers of special service personnel (librarians, nurses, etc.), teachers' aides, supervisors or counselors, and principals are determined by having one of these categories of personnel allowed for "x" number of classroom teacher units, with "x" varying depending on the category. Salaries of the personnel are based on degrees held and length of experience.

(2) Operating cost allowances are based on the number of regular classroom units, special education teacher units and vocational teacher units.

(3) Transportation cost allowances are made on a formula basis considering the number of pupils transported, number of miles driven, types of roads, etc.4/

The MFP also provides for two additional forms of assistance: vocational education and special education.

(4) Vocational education assistance is based on one teacher for "x" number of secondary school students, with "x" varying depending on the size of the district. Smaller districts generally get more Foundation Program support per student than larger districts.

(5) Special education assistance, Plan B, is based on one teacher for "x" number of students having special education needs, depending on the category of assistance needed (mental retardation, learning disabilities, physical handicap, emotional disturbance, pregnant). Generally, one special education teacher can be allocated for as few as six emotionally disturbed students, or as many as sixty students with speech handicaps. Special education assistance, Plan A, now phasing in to completely replace Plan B assistance by 1976-77, is allocated somewhat differently. Basically, one special education teacher is allotted for every 143 total students enrolled in a district, rather than for the number of students having special education needs.5/

MFP disbursements broke down as follows in 1970-71: The minimum salary support accounted for 80.5%, operating allowances for 6%, transportation costs for 2.5%, vocational education for 5% and special education for 6%.6/ The State pays roughly 80% of the total MFP costs, and local districts together must provide the other 20%.

Individual districts are assigned their share of this statewide 20% bill, called the Local Fund Assignment (LFA), presumably in accordance with their fiscal capacity. This is determined by an "Economic Index" established for each county and by the districts' proportion of their counties' assessed valuation. Mainly, local districts raise their LFA through local property taxes.

Additionally, the local districts can "enrich" their school programs beyond the MFP minimum by levying extra property taxes. There is no limit on how much districts can "enrich" their programs. On the average local districts raise 2-1/2 as much for enrichment of operating programs as they do for their LFA.7/

But the Minimum Foundation Program only accounted for 85% of the State's total education aid in 1970-71. The remaining 15% of the total State education aid went for special state programs, Texas Education Agency administrative costs, county agency administration, Regional Service Centers, free textbooks, and, most significantly, the teacher retirement system.8/

THE EFFECTS OF THE SYSTEM ON SELECTED HARRIS COUNTY AND OTHER TEXAS SCHOOL DISTRICTS

What are the effects of this complex system of Texas school finance? Table 1 on the next page shows the effects on operating expenses and state aid for selected Harris County and other districts around the State.

Looking at "Foundation Program" figures (column 3) it is apparent that the four wealthiest districts in Harris County (according to their "Market Value per ADA", column 2) received the highest dollar per pupil allocations of all the selected Harris County districts. Only the wealthiest Harris County districts are above the state average of $427/pupil. When looking at the other selected Texas districts, the same pattern holds--the wealthier districts get more Foundation Program allocations per pupil than the poorer districts (except for Provident City).

Going on to "Enrichment" operating expenses (column 4), which are local expenditures over and above Foundation program expenditures, it can be seen that the four wealthiest Harris County districts have from $35/pupil (Tomball vs. Pasadena) to $503/pupil (Deer Park vs. N.E. Houston) greater enrichment expenditures than the poorest Harris County districts, i.e., 19% to 620% more. Only the four wealthiest districts and Houston ISD exceed the State average of $191/pupil. Edgewood, Laredo, Brownsville, Robstown and West Oso are worse off than even Harris County's

TABLE 1

COMPARISON OF STATE AND LOCAL OPERATING EXPENSES AND STATE AID IN SELECTED TEXAS SCHOOL DISTRICTS

	ADA 1970-71(a)	Market Value per ADA 1970(a)	State/Local Current Operat'g Expenses per ADA, 1970-71(b)			State Aid per ADA 1970-71(b)
			Found'n Program	Enrich-ment	Total	
5 Largest Harris Cty ISD's(c)						
Houston	203,000	$ 57,000	$ 409	$ 234	$ 643	$ 315
Spring Branch	37,000	41,000	371	188	560	323
Pasadena	33,000	33,000	393	184	578	343
Aldine	23,000	16,000	365	103	468	342
N.E. Houston	14,000	14,000	376	97	474	359
4 Wealthiest Harris Cty ISD's						
Katy	1,500	227,000	404	481	885	160
Deer Park	6,100	170,000	430	600	1,030	116
Goose Creek	12,000	86,000	445	355	800	286
Tomball	1,500	85,000	447	219	667	312
4 Poorest Harris Cty ISD's						
N.E. Houston	14,000	14,000	376	97	474	359
Aldine	23,000	16,000	365	103	468	342
Channelview	3,300	23,000	413	135	548	372
Pasadena	33,000	33,000	393	184	578	343
Other Selected Texas ISD's						
Edgewood (San Antonio)	20,000	5,100	357	59	416	354
Laredo	18,000	11,000	367	96	463	344
Brownsville	17,000	13,000	360	87	446	333
El Paso	57,000	25,000	413	205	617	397
Robstown (Nueces Cty)	4,900	21,000	393	80	473	367
Corpus Christi (Nueces Cty)	43,000	26,000	406	150	556	353
West Oso (Nueces Cty)	2,300	34,000	415	93	508	383
Austin	49,000	37,000	427	233	659	373
Dallas	146,000	56,000	385	287	672	270
Snyder (Scurry Cty)	3,600	405,000	435	476	911	111
Andrews (Andrews Cty)	2,600	496,000	426	971	1,397	129
Laureles CSD(c) (Kleberg Cty)	22	5,642,000	410	446	856	114
Provident City (Wharton Cty)	3	10,863,000	0	6,594	6,594	0
STATE TOTALS	2,476,000	53,000	427	191	617	355

(a) ADA is Average Daily Attendance. Data source: Texas School Finance Study Groups, PRELIMINARY ESTIMATES OF 1970 MARKET VALUE OF TAXED PROPERTY OF TEXAS SCHOOL DISTRICTS, Sept. 1972, Austin.

(b) Data source: Texas Research League, TEXAS PUBLIC SCHOOL FINANCE: A MAJORITY OF EXCEPTIONS, 2nd Interim Report, Nov. 1972, Austin, Appendix A.

(c) ISD is Independent School District. CSD is Common School District.

poorest district (N.E. Houston), having only 1/3 to 1/2 of the State average. El Paso and Austin, like Houston, modestly exceed the State average, while Dallas, the State's second largest district after Houston, is 50% higher. The sample of four very wealthy districts (Snyder, Andrews, Laureles and Provident City) have enrichment expenditures from 2.3 to 35 times state average.

Looking at the "Total State and Local Current Operating Expenses per ADA" (column 5), which combines Foundation Program and enrichment expenditures, it is seen how the combination of higher Foundation Program allocations, plus considerably more enrichment monies, results in the four wealthiest Harris County districts having $89/pupil (Tomball vs. Pasadena) to $562/pupil (Deer Park vs. Aldine) more total state and local operating monies than the four poorest districts in the County. Only the wealthiest districts and Houston exceed the State average of $617/pupil. The same pattern holds for the other selected Texas districts, with the wealthiest districts having considerably more total operating monies than the poorest ones. Edgewood, Laredo, Brownsville and Robstown are $140/pupil to $200/pupil below State average.

Finally, re "State Aid per ADA" (the last column), which is the State's share of Foundation Program expenditures, indeed we see an equalizing effect in operation (attributable to the method of calculating the local share, or Local Fund Assignment, of the Foundation Program). The four wealthiest Harris County districts receive less state aid than all the other selected County districts. This basic pattern holds for the other selected Texas districts. Note, however, that of all Harris County districts, all but N.E. Houston and Channelview receive less than the state average of $355/pupil. And four of the six poorest other Texas districts also receive less than the state average.

Table 2 compares the effective tax rates* and assessment ratios for selected Harris County and other districts around the State. While district wealth (market value per ADA), Foundation Program allocations, local enrichment expenditures and state aid, which have been reviewed on the preceding pages, are part of the picture, it is also important to compare the tax effort

* "Effective" tax rates are computed on market value, whereas the actual, collected tax rates are computed on assessed value. Using "effective" rates to compare districts tends to eliminate the role that differential assessment practices play from district to district. For instance, take two districts that have the same actual tax rate, with one district assessing at 20% of market value and the other at 40%; the latter district actually is taxing itself double the former district. Comparing "effective" tax rates shows this difference.

of the selected districts. Are the poorer districts worse off in local expenditures than the wealthier districts because they haven't exerted as much tax effort? Or do the poorer districts extend themselves more and still have less local monies available for their schools?

Looking at tax rates to raise local tax levies for the Local Fund Assignment (column 1), remembering that the LFA is the local share (average 20%) of the Foundation Program, there is no clear pattern shown. Wealthy districts tax high and low, so too do poorer districts. This suggests that the calculation of the LFA is rather equitable, although the difference between Provident City at $0.56, Snyder at $0.90 and El Paso at $0.96, on the one hand, and Channelview at $2.25 and Corpus Christi at $2.27 is inexcusable.* It should also be noted that all Harris County districts except two (Katy and Spring Branch) tax themselves above the State average of $1.51 per $1000 market value.

Moving on to tax rates to raise local tax levies for maintenance (column 2), which is a total of the rates to raise LFA and enrichment monies for operating expenses, there are clear distinctions to be seen. The four poorest Harris County districts tax themselves from 1/5 to 3 times higher than the four wealthiest districts (comparing Pasadena to Goose Creek, then N.E. Houston to Katy), with all four taxing themselves more than 50% above the State average of $4.97 per $1000 market value. The same basic pattern holds for the selected other Texas districts. The Houston ISD's rate is notoriously lower than any of the four poorest Harris County districts, although it is still higher than the State average. In fact, of all the selected Harris County districts, only Katy and Tomball tax themselves below the State average. The sample of four very wealthy districts all tax themselves well below State average, from 1/2 to 1/10 of it. Thus, for operating expenses, especially enrichment expenses, it is clear that poorer districts tend to tax themselves considerably more than wealthier districts, while still ending up on the short end of the expenditure stick. It is also clear that urban districts tax themselves more than the rest of the State does.

Looking next at tax rates to raise local tax levies for debt service (column 3), remembering that this is how school systems, by-and-large, finance school site acquisition, new construction and major renovation,** it is seen that the four poorest districts in Harris County tax themselves from two to six times what the four wealthiest Harris County districts do (comparing Pasadena to Deer Park, then N.E. Houston to Tomball), and two to three times the

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* There is a question, however, as to how reliable the data is on market value. The data used were submitted by the school districts themselves, making it quite possible for richer districts to understate their wealth.

** There is no State assistance for these necessary expenditures, although some Federal funds are used.

TABLE 2 COMPARISON OF EFFECTIVE TAX RATES (TAX RATE ON MARKET VALUE) AND ASSESSMENT RATIOS IN SELECTED TEXAS SCHOOL DISTRICTS(a)

	Tax Rates on $1000 Market Value(b) To Raise Local Tax Levies for				
	LFA (Adj)(c)	Maintenance(d)	Debt Service	Total(e)	Assessment Ratios(f)
5 Largest Harris Cty ISD's					
Houston	$ 1.76	$ 5.49	$ 1.27	$ 6.77	40
Spring Branch	1.41	6.79	2.33	9.12	52
Pasadena	1.78	7.50	2.43	9.93	53
Aldine	1.69	7.70	3.79	11.49	62
N.E. Houston	1.57	9.34	4.11	13.45	75
4 Wealthiest Harris Cty ISD's					
Katy	1.08	3.14	.79	3.93	27
Deer Park	1.95	5.39	1.27	6.66	39
Goose Creek	1.92	6.29	1.08	7.38	43
Tomball	1.70	4.65	.72	5.58	33
4 Poorest Harris Cty ISD's					
N.E. Houston	1.57	9.34	4.11	13.45	75
Aldine	1.69	7.70	3.79	11.49	62
Channelview	2.25	8.89	2.51	11.41	68
Pasadena	1.78	7.50	2.43	9.93	53
Other Selected Texas ISD's					
Edgewood (San Antonio)	1.64	4.97	5.53	10.50	70
Laredo	1.88	6.96	1.69	8.64	53
Brownsville	2.10	7.94	2.34	10.28	57
El Paso	.96	6.35	1.87	8.22	44
Robstown (Nueces Cty)	1.41	4.43	2.04	6.47	32
Corpus Christi (Nueces Cty)	2.27	7.67	2.32	9.99	54
West Oso (Nueces Cty)	.94	4.32	1.83	6.16	35
Austin	1.29	7.37	2.68	10.05	67
Dallas	2.16	7.17	1.39	8.57	52
Snyder (Scurry Cty)	.90	2.06	.13	2.18	14
Andrews (Andrews Cty)	1.11	2.64	.55	3.18	18
Laureles CSD (Kleberg Cty)	2.06	.66	.00	.66	21
Provident City (Wharton Cty)	.56	.51	.00	.51	7
STATE TOTALS	1.51	4.97	1.34	6.31	38

(a) Data Source: Texas School Finance Study Groups, PRELIMINARY ESTIMATES OF 1970 MARKET VALUE OF TAXED PROPERTY OF TEXAS SCHOOL DISTRICTS, Sept. 1972, Austin.
(b) Tax rates on market value will be considerably less than on assessed value.
(c) Local Fund Assignment, adjusted.
(d) Total of tax levy required to raise LFA and the enrichment tax levy.
(e) Total of Maintenance and Debt Service tax levies.
(f) Assessed value as a percentage of market value.

State average of $1.34 per $1000 market value. Houston ISD taxes itself for debt service at slightly less than State average, although still at a higher rate than the four wealthiest districts in the County. Of the other selected Texas districts, all but the four very wealthy districts tax themselves higher than State average, ranging from Dallas (4% higher) to Edgewood (412% higher).

Re Assessment Ratios (column 5). This is a comparison of the assessed valuation to the market valuation of a district's real property. While this has already been factored into the "effective" tax rate figures of the previous columns, it is valuable to note, without the confusion of differing actual tax levies, how the poorest districts in Harris County assess themselves at 40% to 100% higher than the State average, as do most of the other selected, poorer Texas districts. Urban districts are generally higher than State average.

THE EFFECTS OF THE SYSTEM ON THE STATE AS A WHOLE

The foregoing interdistrict fiscal disparities exemplify the Texas system of school finance, but they are by no means the extreme examples of interdistrict disparities across the State. In Harris County the 1970 estimated market value per pupil ranged from $14,000 to $227,000. Yet, in Texas as a whole there were 175 school districts with greater wealth, 21 of which had over $1,000,000 market value per pupil, with Provident City ISD having $10,863,000 MV/p. The State average in 1970 was $53,000.10/

In 1966-67 districts 80% or more Chicano had a $33,000 MV/p versus a State average was $47,000.11/

But these State disparities have to be considered in light of the school district sizes in Texas. In 1969-70 the Texas system contained over 1,200 districts. These districts ranged in size from the huge Houston ISD (241,000 students) and Dallas ISD (165,000) to 32 districts with 25 or less ADA. There were 641 districts 500 or less ADA and 954 districts 1,500 or lessADA.12/ While the total number of districts has slightly dwindled, the size disparities among districts remains roughly the same.

Referring back above, therefore, it should be noted that the 175 districts with greater than $227,000 MV/p had a average ADA of only 295, and the 21 districts with over $1,000,000 MV/p had an average ADA of only 30.

District wealth is generally an inverse function of district size. As Table 3 shows, in 1966-67, the average Estimated Market Value per ADA (EMV/ADA) for districts less than 500 ADA was $121,000 as compared to $36,000 for the seven largest districts (more than 40,000 ADA).*13/ And, as was noted above, 641 of the State's 1,219 districts in 1969-70 were 500 ADA or less.

TABLE 3

COMPARISON OF SCHOOL DISTRICT WEALTH
BY DISTRICT SIZE GROUPS, USING
1966-67 ESTIMATED MARKET VALUE PER ADA 14/

School District Size	1966-67 EMV/ADA
Less than 500 ADA	$ 121,000
500 - 1,599	79,000
1,600 - 2,599	51,000
2,600 - 4,999	48,000
5,000 - 9,999	43,000
10,000 - 39,999	28,000
More than 40,000	36,000
State Total	$ 47,000

The Minimum Foundation Program favors smaller districts, especially those under 500 ADA, as Table 4 on the next page clearly illustrates. Factoring out transportation allowances, the Texas Research League's data show that small districts (100-499 ADA) have 11-12% higher Foundation Program allotments than all larger districts and that the smallest districts (under 100 ADA) have roughly 40% higher allotments than all larger districts (over 500 ADA).

Districts over 2,600 ADA are generally treated equally. In Fall 1970 approximately 28 out of more than 100 predominantly Mexican-American districts were over 2,600 ADA; however, these 28 districts, along with the seven largest central city districts, contained over 60% of all the Chicano students in the State. On the other hand, only three predominantly Black districts over 2,600 ADA existed in Texas in Fall 1970. Yet, Black students are concentrated more heavily in large urban districts than Chicano students; a majority of Black students are enrolled in the large urban districts.15/

* Houston, Dallas, Fort Worth, San Antonio, El Paso, Austin, and Corpus Christi Independent School Districts.

TABLE 4

FOUNDATION PROGRAM COSTS PER STUDENT 1970-71
BY SIZE OF DISTRICT (a)

Size of District in ADA	Number of Districts	Regular Foundation Program		Vocational Education	Special Education	Total	Total Less Transportation Allocations
		Salaries and Operating Costs	Transportation				
Over 50,000	5	$ 368	$ 1	$ 12	$ 22	$ 403	$ 402
10,000 - 49,999	41	358	3	16	31	408	405
5,000 - 9,999	36	366	8	22	29	425	417
1,500 - 4,999	189	369	13	29	28	439	426
1,000 - 1,499	93	376	21	35	20	452	431
500 - 999	213	388	28	38	17	470	442
100 - 499	432	422	41	54	12	530	489
Under 100	140	581	69	25	2	676	607
STATE AVERAGES		$ 370	$ 9	$ 22	$ 26	$ 427	$ 418

Note: Detail may not add to totals because of rounding.

(a) Source: The Texas Research League, TEXAS PUBLIC SCHOOL FINANCE: A Majority of Exceptions, 2nd Interim Report, November, 1972, Austin, Table 3, p. 15.

WHY DO THESE INEQUITABLE EFFECTS OCCUR?

Major Problems

(1) How enrichment monies for operating expenses are provided.

(2) How Capital Outlay monies must be raised.

(3) How Foundation Program current expense allotments are determined.

Least Worrisome Part of the System

(4) How the Local Fund Assignment (LFA) is calculated (although the methodology has its flaws).

(1) Enrichment

The 1968 Governor's Committee on Public School Education reported that twice as many local tax dollars went for enrichment of current operating expenditures as for the local portion (LFA) of the Minimum Foundation Program.16/ By 1970-71, the Texas Research League's data showed that the ratio had risen to 2-1/2:1 ($197/pupil for enrichment vs. $77/pupil for LFA).17/

This is not surprising considering that there is no limit on how much enrichment monies a district can raise, and that, under pressure of strong inflationary trends, raising enrichment levies is easier to do than pushing for increases in Foundation Program funding at the state level, at least for those districts which can afford to increase their taxes.

District property wealth is the sole determinant of the amount of enrichment monies that similar district tax rates can generate. Because of this, local enrichment revenues for operating expenses (i.e., excluding local money raised for debt service) ranged from less than $100/student to more than $7000/student across the State in 1970-71, although only 11% of the districts (2% of the students) had enrichment levels above $500/student.18/

The 1973 Report of the Joint Senate Interim Committee to Study Public School Finance (Mauzy Report)19/ called local enrichment the "greatest matter of inequity in the current Foundation School Program."

It is to be noted that Florida, Kansas, Montana and Michigan have all recently passed legislation which works at providing more equal yields for the same enrichment tax rates.

(2) Capital Outlay

Roughly 1/4 of local revenues go for capital outlay expenditures and debt service. This is more than is allotted for the local share (LFA) of the Minimum Foundation Program.20/

As with enrichment monies for operating expenses, district property wealth is the sole determinant of the amount of capital outlay and debt service funds that similar district tax rates can generate.

And, of course, district property wealth is generally unrelated to differences in construction and renovation needs and costs between districts. Construction cost per square foot can be the same for city and suburb because they are drawing from the same labor pool and supplies market. Nevertheless, land costs differ fantastically. A recent survey of the 25 largest metropolitan areas in the U.S. points up how central cities paid $68,000 per acre for school sites, while their surrounding suburbs paid only $3,500 per acre. Rural construction and land costs, of course, are considerably less than city and suburban costs.

Presently 35 States provide some form of assistance for school housing, with Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, New Hampshire, North Dakota and Vermont allocating from 11% to 47% of their state school budgets for this purpose. Maryland has 100% state supported school construction, although sites have to be acquired with local funds.21/

(3) Foundation Program Allotments

Of total State and local operating costs, 62% are supported by the Minimum Foundation Program.22/ According to the Texas Research League's recent research, the Foundation Program allotment in 1970-71 exceeded $1500/pupil in one district with 38 pupils and was below $300/pupil in another with 51 pupils. The bulk of Texas districts (84% of the districts, 99% of the students) get from $300/pupil to $600/pupil. But this is a 100% gap between top and bottom.23/

The Mauzy Report has castigated the workings of the present Foundation Program on several points. (a) Rich districts can pay higher salaries to attract teachers with advanced degrees and more experience, thus garner more Foundation Program entitlement. So rich districts get more state aid and poor districts get what's left in terms of teacher quality and state aid. (b) A district must fill its authorized personnel units to get a Foundation Program allotment. But low salary schedules, use of larger pupil/teacher ratios, and unattractiveness of districts' locations and facilities contribute to underutilization of allowed units within certain districts. The Report said this frequently exists "in districts with comparatively low per pupil property wealth." (c) The Foundation Program higher allotments for teachers with more advanced degrees and more experience constitutes a "guarantee" (to the Texas State Teachers Association) that the higher priced teachers won't be dumped in favor of cheaper teachers (i.e., ones with less degree preparation and less experience) by districts which question the cost effectiveness in the classroom of the higher priced teachers, and which might wish to experiment with alternative uses of the extra Foundation Program funds which now are allotted for the higher priced teachers over lower priced ones. (d) The Foundation Program pays only for one set staffing pattern of teachers, principals, other administrators, counselors, nurses, librarians, teachers'

aides, etc. Only if a district has enrichment monies can it add additional staff in these categories or hire additional staff outside these categories.

(4) Local Fund Assignment

Remembering that this is the least worrisome part of the present system of school finance in Texas, i.e., it is the most equalizing feature, a few problems with the calculation of the LFA shall be simply noted.

Certain government land allows school districts to claim credits against their LFA, i.e., they have to pay less than their base LFA figure. This amounted to $5.9 million in 1970-71.

Districts which claim they cannot assess higher than their county assessment ratio get a "maximum tax rate" credit. This amounted to $15.0 million in 1970-71.

Rich districts whose per pupil apportionment from the State (see p. 1) and LFA exceed the computed cost of their Foundation Programs are called "Budget Balance" districts. The only state aid these districts receive is the $119/student (1970-71)* per pupil apportionment, no Foundation Program aid. But they only have to pay the part of their LFA which, added to the per pupil apportionment, equals their computed Foundation Program level. This means $7.0-$7.8 million of LFA was lost in 1970-71.

Adding these credits together totals $28 million, which, in effect, due to technicalities, the districts which don't claim the credits must pay for (i.e., their LFA's are increased proportionately to share the cost of the $28 million which the fortunate districts get credit for).24/

LFA for a district is determined by an "Economic Index" for each county and by the district's proportion of the county assessed valuation. Many people question the validity of the variables used in calculating the "Economic Index" to measure a county's tax capacity. Also districts, such as most urban and poor districts, which use high assessment ratios (i.e., real property is taxed at a high proportion of market value), lose out under the present system because this practice increases a district's overall county Economic Index (20% of which is based on a county's assessed valuation) and it increases a district's share of its county's assigned LFA.

* $130/ADA in 1971-72.

But remember, the method of calculating the LFA is the most equalizing part of the present system of Texas school finance. Reform efforts, like Rep. Dan Kubiak's, which focus on changing the method of calculating LFA, are diversionary from the major problems in the system. To reiterate, the major problems are

(1) how enrichment monies for operating expenses are provided;

(2) how capital outlay monies must be raised; and

(3) how Foundation Program current expense allotments are determined.

HOW SHOULD REFORM BE APPROACHED?

Reform can be attempted by remedying one problem at a time, or it can be done in wholesale fashion. Either way, an overall concept of what constitutes an equitable system for all school districts in a state is mandatory. Otherwise the remedies proposed to solve one fiscal problem, if unevaluated for their contribution to overall system equity, may cause severe repercussions in other fiscal dimensions once they are implemented. Following are discussed various factors which many states across the United States are now beginning to recognize as "must" considerations in the development of fair and equitable state school financing systems.

1. District Wealth

The lower the property wealth per pupil, the more the state school finance system should compensate. Equal local tax rates should provide equal yields of state and local revenues, all other factors being equal.

2. District Family Income

Property wealth alone is not an adequate measure of district wealth. The lower the family income per pupil, the more the state shool finance system should compensate, since property taxes have to be paid out of income. Kansas has recently instituted a system incorporating this feature.

3. Local School Taxes

As greater tax effort is put forth by school districts, proportionate increases of state and local revenues should perhaps be available to the districts, all other factors being equal. This assumes the desirability of continuing to allow differential local tax efforts.

On the other hand, there are certain problems with allowing differential efforts. First of all, wealthier communities probably can more easily afford to increase their tax effort than poorer communities--they have more income. Second, communities with voters who are more educated and have more income, and which have more professional workers probably more easily vote for higher tax efforts than those which don't have these kinds of voters, at least according to a study done by a Massachusetts scholar looking at the Massachusetts history regarding tax effort. After all, such people know the value of education. However, the evidence in Texas shows that, on the whole, the poorest districts have taxed themselves much more than richer districts.

4. Local Municipal (Non-School) Taxes

Cities and some other governmental units often have very high municipal (non-school) tax burdens because of high needs for adequate police protection, garbage disposal, health and hospital services, fire protection, sewers, social services for indigents, etc. The higher the non-school tax burden, the less available are additional tax dollars for schools. Thus, the greater the non-school tax effort, the less should be expected in school tax efforts, or, to put it another way, low school tax effort in a district with a high non-school tax burden should bring a nearly equivalent yield as a high school tax effort in a district with low non-school taxes, again all other factors being equal.

5. Different Common Costs of Education

Salaries, janitorial labor, kitchen help, other labor costs, land for school buildings, etc., all are higher in urban areas than rural areas.

A recent study by The Urban Institute in Washington, D.C. shows that there is little difference between the non-instructional expenditures of one district or another, whether urban, suburban or rural--except for the very high transportation costs of rural districts, which in turn is counterbalanced by the very high building operation and maintenance costs of central cities. The main point on cost differentials has to center around teachers' salaries, which amount to around 80% of operating budgets of school systems. There are two major differences in cost differentials in teachers salaries between different types of districts. First of all, city and suburban districts have higher salaries than rural districts for teachers with the same experience and education. Secondly, cities have more teachers with greater seniority and more preparation (degrees) than suburban (and rural) districts. Thus, city districts end up having higher salary costs than their suburban counterpart

districts, and certainly, considerably higher costs than their rural counterparts. This is a reality whether or not we value more experience and more formal preparation in teachers.25/

Equal dollars per pupil, therefore, buys the least educational program in urban areas and the most in rural areas, with suburban areas in between.

General cost-of-living differentials between areas should be reflected in distribution of any state education funds. Florida has recently adopted this principle. But central cities' higher salary costs due to higher concentrations of more experienced, more prepared and thus securely tenured teachers also must be recognized.

6. Concentrations of Students with Special Needs

It is generally accepted that it costs more to educate children with physical handicaps, mental retardation, learning disabilities and emotional disturbance than the average student. It is also somewhat accepted that it costs more to educate "incompatible" students, i.e., students from non-mainstream, non-Anglo, non-middle class backgrounds. More funds per student should be made available for such special education needs. And, as the percentage of such students varies district by district, especially in the category of "incompatible" students, differing overall needs should be recognized in any fair state funding scheme. Utah and Florida have both revised their systems to provide for higher concentrations of student needs in some districts over others.

7. Different Transportation Needs

The rural factor. Excess transportation costs and higher administrative costs should be compensated (remembering, however, that urban and suburban districts also have real transportation needs which should likewise be compensated if their needs are in "excess" of a normal district's transportation needs).

SCORECARD ON THE SYSTEM

Now turn to the next page to see how each of the major facets of the Texas system of school finance tend to compensate/equalize for the various factors just discussed.

TABLE 5

A SCORECARD ON THE SYSTEM OF SCHOOL FINANCE IN TEXAS

Does the System Tend to Compensate/Equalize for	Per Capita Apportionment	Foundation Program Allotment	Determination of LFA	Enrichment Funds for Operation	Providing for Capital Outlay and Debt Service
1. Lower district property wealth	NO	NO	Somewhat	NO	NO
2. Lower district family income	NO	NO	Somewhat	NO	NO
3. Higher district school taxes	NO	NO	NO	NO	NO
4. Higher district municipal (non-school) taxes (which reduce the available tax dollars for school needs)	NO	NO	NO	NO	NO
5. Higher common costs of education due to higher costs of living (base salaries, other labor costs, materials, site acquisition)	NO	Indirectly for salaries; otherwise NO	NO	NO	NO
6. Higher concentrations of students with special needs in a district (greater numbers of handicapped, deaf, blind, "incompatible" students*, etc.)	NO	Somewhat now; NO by 1976-77**	NO	NO	NO
7. Lower density of student population	NO	YES	NO	NO	NO

* "Incompatible" students are those from non-mainstream, non-Anglo, non-middle class backgrounds, after the Dr. Jose Cardenas and Ms. Bambi Cardenas definition.

** During 1970-71, only 6% of MFP allocations went for Special Education needs. This figure is increasing by virtue of changes mandated by the State Legislature in 1970. However, now Special Education funds are based on identified student needs, whereas by 1976-77 Special Education funds will be allocated on the assumption that every district has the same percentage of special education students, therefore, not recognizing higher needs among some districts. Further, higher numbers of "incompatible" students get no recognition.

Should Texas not consider adopting a system of school finance which would compensate/equalize for each of the factors in the foregoing discussion? Is it not time for Texas to institute an equitable system of school finance?

But can the State afford it?

YES

In 1970-71, Texas was 41st nationally in current expenditures per pupil for public elementary and secondary schools.26/ According to estimates from the National Center for Educational Statistics, this ranking is not likely to be very different when 1972 and 1973 data are published.

When looking at local and state revenue receipts for public schools (1971-72) as a percent of personal income (1971), the most recent figures available, we see that Texas is at 4.8% vs the U.S. average of 5.2%, ranking Texas around 35th nationally.27/ But on most measures of State wealth, Texas ranks slightly higher nationally.28/

These figures suggest that the State is spending less than it could on public education

Meanwhile it should be noted that local governments only account for 43% of the revenue for Texas public elementary and secondary schools, 1972-73, versus a 51.2% national average. On the other hand, the State share is 46.3% versus a 41.0% national average.29/

Where does this leave one who wants to bring about major reform in a system of school finance shot full of serious inequities?

On the modest side, as the State decides to spend additional revenues for education, one should carefully scrutinize the purposes and potential effects to see if the monies could not be more directly allocated to remedy the debilitating inequities in the present system, rather than perpetuating more of the same. On the not so modest side, one could call for a State income tax to provide funds to make up for many districts' very low fiscal capacity to raise funds for themselves.

Whichever course is taken, probably both should be, it is clear that only an aroused citizenry will be able to move the State to reform when the route thorugh the courts has been temporarily blocked and when the incumbent Governor and some key Legislators would rather deal with the inequities by cosmetics rather than by major reform. The citizens will have to become outraged at the crippling effects of the inequities of Texas' present school finance system.

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* The Federal share in Texas is 10.7%.30/

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